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Northwest Territories Legislative Assembly

Standing Committee on Accountability and Oversight

The Report on the Review of the "Report of the Auditor General to the NWT Legislative Assembly for 2000 & 2001"

Chair: Mr. Charles Dent

105-00463/

Northwest Territories Legislative Assembly
Standing Committee on Accountability and Oversight

FEB 27 2003

SPEAKER OF THE LEGISLATIVE ASSEMBLY

Mr. Speaker:

Your Standing Committee on Accountability and Oversight has the honour of presenting its Report on the Review of the "Report of the Auditor General to the NWT Legislative Assembly for 2000 & 2001, and commends it to the House.

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Chairperson

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Standing Committee on Accountability and Oversight Report on the Review of the Report of the Auditor General to the NWT Legislative Asembly for 2000 & 2001

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The Report on the Review of the "Report of the Auditor General to the NWT Legislative Assembly for 2000 & 2001"

Introduction

- The Standing Committee on Accountability and Oversight met on December 2nd and 3rd, 2002 to review the Report of the Auditor General to the NWT Legislative Assembly for 2000 and 2001.

- On December 2nd, briefings on issues raised in the report were provided by the Committee analyst and staff from the Office of the Auditor General represented by Mr. Roger Simpson, Principal and Mr. Daniel Stadlwieser, Director.

- A public meeting was held on December 3, 2002, during which Committee Members took the opportunity to hear from several witnesses. The list of witnesses included: Mr. Lew Voytilla, Comptroller General, Financial Management Board Secretariat (FMBS); Mr. John Carter, Assistant Comptroller General, FMBS; Ms. Catherine Praamsma, Assistant Deputy Minister, Operational Support Branch, Department of Health and Social Services (HSS); Mr. Warren St. Germaine, Director, Financial Services, HSS; Ms. Debbie DeLancey, Deputy Minister, Department of Municipal and Community Affairs (MACA); Ms. Margaret Melhorn, Deputy Minister, Department of Finance (Finance); Mr. Doug Doak, Director and Superintendent of Insurance, Finance; Mr. Tom Beaulieu, President, Northwest Territories Housing Corporation (NWTHC); Mr. Jeff Anderson, Chief Financial Officer (NWTHC); Mr. Bob Mcleod, Deputy Minister, Department of Resources, Wildlife and Economic Development (RWED); and Mr. Doug Doan, Assistant Deputy Minister, Resources and Economic Development (RWED).

Formula Financing Agreement

- The Formula Financing Agreement determines the amount of the grant from Canada. The Agreement is negotiated regularly between the Government of the Northwest Territories and the Government of Canada. The current Agreement came into effect, April 1, 1999 and is due to expire March 31, 2004 unless it is extended. The grant accounts for 70 percent of the territorial government's income.

- Two major factors in the grant calculation are the NWT's population and spending by other Canadian jurisdictions. Final figures for both components are frequently unavailable for up to seven years and may require subsequent adjustments to grant transfers.

- There is a risk that revenue figures for any given year are too high or too low. If they are too high, the risk is worse. It will then mean that the Government would have to pay some monies back to Canada. Conversely, if they are too low, then Canada owes additional monies to the Government. Either situation makes it more difficult for the Government to properly plan and budget for its activities. The Auditor General suggested that the Government, by carefully managing its revenue risks, could increase the amount of lead time it has to adjust for the inevitable shifts in grant revenues.

- The Committee and the Government agreed with this recommendation. Conservative, yet realistic forecasts would significantly contribute to decreased revenue risks and improved financial planning and management. The Committee encouraged the Government to ensure a more reliable revenue stream is incorporated in the upcoming Agreement negotiations.

Revenue Income and Cost Recovery

- The Government also receives a significant amount of income from Canada's payment for hospital and medical care costs for Indians and Inuit. At the end of March 2001 and March 2000, Canada owed the Government $19.3 million and $26.5 million respectively. The Auditor General pointed out that this is tantamount to lending the federal government money interest free. As a rough estimate for the two years, at a nominal 5 percent, the cost or loss in interest income to this Government would be more than $1 million.

- The Department of Health and Social Services explained that it did not receive funding from Canada on a timely basis as its agreement with the federal government
was not signed until late into 1999-2000 and thus it could not bill monthly. Further, the required audit for the 1999-2000 claim year had not been completed and as such, Canada held back payments for the 2000-2001 fiscal year.

- The Office of the Auditor General recommended the Government reach an interim billing agreement with Canada to better manage its cash flows, and the Department should review its processes to ensure claims are finalized and audited on a more

timely basis. The Auditor General did not encounter any federal regulation that would prohibit DIAND from entering into such an agreement.

- The Committee and the Auditor General encourage the Department to enter into an interim agreement with DIAND for the timely reimbursement of hospital and medical care costs for Indians and Inuit. Committee Members stated there is no reason the GNWT should fund the program. Timely reimbursement is especially important given the Government's forecast cash deficit. The Government advised that they are requesting an interim funding agreement with DIAND be put in place. At the time of the review, the Government had not received a response.

Business Development Funding and Grants to Small Businesses

- The Department of Resources, Wildlife and Economic Development administers both the Business Development Funding (BDF) and the Grants to Small Businesses (GSB) programs. Both programs provide funding to small businesses.

- According to the Department's website, the BDF is made up of nine program schedules that are roughly tied to the business development process. The BDF provides assistance up to a maximum of $30,000 per year with certain exceptions. The Minister of RWED may direct the Department to provide up to $250,000 in BDF funding to any one client in any fiscal year. Contributions made within the program may be repayable. The Government distributed $3,000,000 and $4,096,000 in BDF funding in 2000-2001 and 1999-2000, respectively.

- The GSB program was developed to provide relatively small amounts of money to individuals who operate small businesses. These small businesses may include artists, craftspeople, renewable resource harvesters, trappers and home-based businesses. The
program provides funding up to a maximum of $5,000 per individual over their lifetime. The Government dispensed $229,000 and $316,000 in GSB funding in 2000-2001 and 1999-2000, respectively.

- The Auditor General reviewed both business assistance programs and identified a number of deficiencies in eligibility criteria, program administration and performance measurement and evaluation. These concerns are addressed in greater detail in Chapter 3 of the Report.

- The Auditor General tested a sample of 20 files from the 1999-2000 GSB program and 46 files from the 1999-2000 BDF program. Fifteen files or 33 percent of the BDF sample had no accounting in their files and a further five files or 10 percent had incomplete accounting, in that they did not provide enough receipts to demonstrate that they had spent all of the contribution on the project as agreed. The Auditor General also found in its sample of GSB files, that there were a number of approved projects where it was not clear if the eligibility criteria of the program were met. The Department has taken steps to rectify the deficiencies identified in the Report.

- Committee Members pointed out that many projects were approved for GSB funding to pay for extraordinary costs. Although the GSB does allow funding for extraordinary costs, no parameters or guidelines were evident and the category is subject to wide interpretation. The Committee suggested that "extraordinary costs" be clearly defined in order to ensure the fair and effective distribution of GSB funding.

- The Committee was especially concerned about the lack of eligibility and accounting for a significant number of BDF files reported by the Auditor General. The Department advised that keeping track of all BDF and GSB files to a high level of accountability may incur a bureaucratic nightmare, as many of the distributed funds are small. Department officials reported that in some cases, the amounts are in the hundreds of dollars. The Office of the Auditor General agreed that the cost/benefit of any controls put in place must be considered against the need for consistent application of policies and procedures.

- The Auditor General and the Committee also pointed out that Schedule G of the BDF program is subject to wide interpretation and lax accounting. Schedule G or the Community Initiatives Program provides funding to projects that support community-based strategies for the development of a stable economic base. Of the 15 files in the BDF sample, 6 or 40 percent did not have adequate accounting in them. In 1999-2000, contributions made under Schedule G were worth $2.2 million, while $1.9 million were awarded under all the other BDF schedules. The Department reports that all accounting has now been provided.

- The Committee replied there needs to be some form of accountability to ensure Government programs and services are achieving their objectives. Both the Auditor General and the Committee stated that if policy makers lack meaningful information on program performance, they would not be able to decide if programs are working, or if they need to be changed. As a more practical solution, Committee Members suggested a sliding scale for accountability. In other words, for a greater amount of funding, there should be a higher level of accountability.

Northwest Territories Housing Corporation – Borrowing and Risk

- The Auditor General noted the Corporation purchased a detoxification facility from a non-profit organization which had defaulted on its mortgage. In doing so, the Corporation purchased the property without obtaining the specific approval as required under legislation.

- Committee Members and the Auditor General were concerned that any borrowing by public agencies adds to the Government's overall debt; and when agreements of this nature are entered into, all implications and risks should be identified and undertaken prior to receiving approval.

- The Corporation explained that under the Social Housing Agreement with Canada Mortgage and Housing Corporation (CMHC), it is responsible for making payments to CMHC even if it does not receive payment from individual mortgage holders. However, the Auditor General pointed out that it was not clear that the Financial Management Board had given the Corporation a "blanket" approval to take over individual mortgages.

- In its response to the Auditor General's recommendations, the Corporation (as noted in the Report) gave notice that it had already entered into another similar transaction where the third party, a non-profit organization, had defaulted on its mortgage. The Corporation added that in this case, it had gone through the process to request and receive the approval of the Financial Management Board (FMB) to acquire the asset and assume the debt.

- The Committee concurred with the Auditor General's recommendation that the Corporation seek clarification from the FMB and the Executive Council on whether they approved the assumption of mortgages at the same time as approving the Social Housing Agreement. The Report added that for any future arrangements of this type, the Corporation should specify each condition that requires approval relative to existing legislation, and request that each be approved by FMB.

- Furthermore, Committee Members were in agreement with the Auditor General's suggestion during the meeting that the Corporation should go back to FMB and the Executive Council to better clarify its mandate. The Government added that it is currently reviewing the mandates of all government organizations and departments and will ensure the concerns of the Committee and the Auditor General are incorporated into the evaluation process.

Northwest Territories Housing Corporation – Mandate and Risk

- The Report found that the Corporation had entered into a deal to act as a general contractor in the construction of housing units in Alaska. The Auditor General is of the opinion that it is not clear whether the Corporation has the legal authority to engage in out-of-territory activities, thereby exposing itself and the Government to financial risks.

- The Auditor General found that the Corporation may have interpreted its own mandate too broadly, allowing itself to engage in any activities that may have some connection to housing. The Corporation was created to address housing needs for the residents of the Northwest Territories. The Auditor General is concerned the Corporation may have exceeded its mandate and authority by acting as a general contractor in Alaska.

- The Report warned that if the Corporation is involved in unauthorized activities, the Corporation's normal rights and protections under the law would not apply including enforceability of contract (particularly revenue collection) and liability limitations enjoyed by public sector corporations.

- Committee Members pointed out that it is to the advantage of the Alaskan organization to choose the Corporation as the general contractor over private firms. There is minimal risk to the client as the Corporation is secured by the territorial government.

- The Committee also responded to the Corporation's assertion that the project was successfully completed with minimal risk. Committee Members commented that while the project came in at $1.1 million and revenues came in at almost $1.2 million,
  the slim profit margin is barely enough to cover overhead costs such as marketing and
  other management responsibilities. For example, the Committee noted that the Corporation has been developing the Alaskan market over a number of years and Committee Members have not seen the amount of money expended to date on the
  Corporation's marketing initiatives. The Corporation rationalized the return on investment is secondary to economic and other development opportunities for northern businesses. In the Report, the Corporation made a commitment to not pursue any further general contracting activities in other jurisdictions without a clear legislative framework to support its activities.

- Committee Members remain concerned about the Corporation's activities outside of its mandate and their associated risks. Despite assurances during

the review that there were no issues outside the Corporation's mandate other than the Alaskan housing development, the Committee noted the Corporation is also developing and marketing software. According to the Corporation, this fits in with their mandate as the software can be used to manage social housing services. Moreover, it had developed the Maintenance Management Operation System, which was provided to the Department of Municipal and Community Affair's School of Community Government.

- In conclusion, Committee Members and the Auditor General recommended the Corporation go back to the Financial Management Board or the Executive Council to clarify its mandate. Many Committee Members noted that the Corporation had clearly moved beyond its original social housing obligations to include other activities.

Conclusion

- The Standing Committee on Accountability and Oversight requests the Executive Council table a comprehensive response to this report within 120 days in accordance with Rule 93(5) of the Rules of the Legislative Assembly.

Guide to Appendices

Appendix A

- Appendix A of this report is the Committee's follow-up to their review of the Report of the Auditor General to the Northwest Territories Legislative Assembly for the Year 1999. Recommendations arising from the Committee's review of the 1999 Auditor General's Report are listed along with their respective Government responses.

Appendix B

- The Committee also requested a number of information items from the Government to better assist the Committee Members with their evaluation of the Auditor General's Report for 2000 and 2001. These items are listed in Appendix B of this report.

Appendix A

Follow-up to the Review of the 1999 Auditor General's Report

Background

- The Standing Committee on Accountability and Oversight met to review the Report of the Auditor General to the Northwest Territories for the year 1999 on April 2 through April 3, 2001. The Committee's recommendations arising from its review of the Report are listed below, along with their respective Government responses.

Recommendations and Responses

1. **The Standing Committee on Accountability and Oversight expects the Government to immediately adopt a progressive approach to the timely tabling of its Public Accounts by having:**

   (a) the 2000-2001 Public Accounts ready for tabling by October 31, 2001;
   (b) the 2001-2002 Public Accounts ready for tabling by September 30, 2002;
   (c) the 2002-2003 Public Accounts ready for tabling by August 31, 2003;
   (d) and in subsequent years, to have the Public Accounts ready for tabling by no later than August 31 of the same year.

   Government Response

Recent Tabling Dates of the Public Accounts for The Government of the Northwest Territories		
Fiscal Year	**Recommended Target Date**	**Actual Date Tabled**
2000-2001	31-Oct-01	21-Feb-01
2001-2002	30-Sep-02	Target met.

2. The Government of the Northwest Territories is to regularly produce a brief, timely, accurate and straightforward document that incorporates performance indicators based upon data included in the Public Accounts to report the financial health of the Government.

Furthermore, the document must:

(a) be published once a year initially;
(b) be user-friendly; and
(c) use the same set of indicators each year.

Government Response

The Government has incorporated performance indicators as a separate section within its tabled set of Public Accounts. (Section IV: Government Indicators, Public Accounts, Northwest Territories, 2000-2001; and Section IV: Government Indicators, Public Accounts, Northwest Territories, 2001-2002)

Appendix B

Information Items From the Review of The 2000 and 2001 Auditor General's Report

Information Items

- During its review of the Auditor General's report for 2000 and 2001, the Standing Committee on Accountability and Oversight requested the following information items from the Government.

1. Current status of the Sombe K'e Healing Lodge.

   Received.

2. A breakdown of expenditures for the past fiscal year on Non-Insured Health Benefits by program (such as dental care, travel, alcohol and drug programs).

   Received.

3. Non-Insured Health Benefits – entitled funding versus received funding for the past five fiscal years.

   Received.

4. Copy of the Lease Only Policy for land that could be negotiated or selected in the land claims process.

   Received.

5. Information on a firm, formerly located in Hay River and now operating in Saskatchewan, that received $600,000 from the Northwest Territories Housing Corporation.

   Received.

6. Copy of most current operational reviews on local housing organizations.

   On February 14, 2003, the Government advised that the operational reviews would be forwarded to the Committee once they have been completed.